



JOHN NAIMO  
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August 26, 2014

TO: Supervisor Don Knabe, Chairman  
Supervisor Gloria Molina  
Supervisor Mark Ridley-Thomas  
Supervisor Zev Yaroslavsky  
Supervisor Michael D. Antonovich

FROM: John Naimo  
Acting Auditor-Controller

A handwritten signature in black ink, reading "John Naimo", is written over the printed name and title.

SUBJECT: **ANNE SIPPI CLINIC TREATMENT GROUP – A DEPARTMENT OF  
MENTAL HEALTH SERVICE PROVIDER – CONTRACT COMPLIANCE  
REVIEW**

We completed a contract compliance review of Anne Sippi Clinic Treatment Group (ASC or Agency), which included a sample of billings from Fiscal Years (FYs) 2010-11 and 2011-12. The Department of Mental Health (DMH) contracts with ASC to provide mental health services, including interviewing Program clients, assessing their mental health needs, and implementing treatment plans.

The purpose of our review was to determine whether ASC provided the services outlined in their County contract, and appropriately spent DMH Program funds. We also evaluated the adequacy of the Agency's financial records, internal controls, and compliance with their contract and other applicable guidelines.

DMH paid ASC on a cost reimbursement basis approximately \$1.4 million and \$1.3 million for FY 2010-11 and FY 2011-12, respectively. ASC provides services in the Fourth Supervisorial District.

**Results of Review**

**Fiscal Review**

ASC did not maintain sufficient working capital to meet their day-to-day financial obligations, or maintain appropriate internal controls over their cash handling, credit cards, and expenditures. ASC's audited financial statements as of June 30, 2013,

reported an operating loss of \$367,233, negative working capital of \$659,462, and their total liabilities exceeded total assets by \$1,075,225.

*ASC's attached response indicates that the Agency has undertaken several steps to enhance their revenues and reduce expenses. ASC management also indicated that they submitted a business plan to DMH, and hired a professional consultant to ensure that future costs are properly supported and charged to the DMH Program.*

In addition, ASC charged DMH \$880,916 (\$473,024 in FY 2010-11 and \$407,892 in FY 2011-12) in questioned costs, and did not always comply with their DMH contract requirements. For example, ASC:

- Allocated \$290,724 and \$373,945 to the DMH Program in FYs 2010-11 and 2011-12, respectively, using inflated allocation rates. After our review, ASC re-allocated their shared costs appropriately based on direct payroll costs, and reduced their DMH Program shared expenditures by \$256,101 (\$88,736 in FY 2010-11 and \$167,365 in FY 2011-12).

*ASC's attached response indicates that the Agency will reduce their FYs 2010-11 and 2011-12 DMH Cost Reports by the over allocated amounts.*

- Charged \$60,449 to the DMH Program for unsupported and unallowable expenditures. The unallowable and unsupported expenditures included personal expenses, late fees, gift card purchases, and a check payable to cash.

*ASC's attached response indicates that the Agency provided documentation, and will reduce their FYs 2010-11 and 2011-12 DMH Cost Reports by \$47,341 of the \$60,449.*

- Overstated their FY 2010-11 DMH Cost Report by \$142,816. After our review, ASC explained the variance was due to additional payroll costs for their Institution for Mental Disease (IMD) Step-Down Program. Specifically, ASC allocates a portion of their Adult Residential Care Facility staff's payroll costs to the DMH Program. However, their Adult Residential Care Facility staff did not have actual timecards or time study to support the amounts allocated to the DMH Program.

*ASC's attached response indicates that they believe the IMD facility staff's payroll costs charged to the DMH Program were supported. However, ASC had not provided adequate documentation to support the Residential Care Facility staff's payroll amounts charged to the DMH Program. DMH agrees that ASC needs to provide adequate documentation, and will work with ASC management to obtain adequate supporting documentation.*

### **DMH Program Review**

ASC's treatment staff had the required qualifications. However, ASC overbilled DMH \$8,502 for program services reviewed. In addition, ASC did not maintain the appropriate documentation in their client case files as required by the DMH contract requirements. For example, the case files reviewed for nine clients receiving psychotropic medication did not contain signed Informed Consent forms as required. Also, for 11 (73%) of the 15 Client Care Plans reviewed, ASC did not develop the Targeted Case Management Services objectives that meet the criteria required by their DMH contract.

*ASC's attached response indicates that although they agreed with the findings that the billing for ineligible clients is unallowable, they do not need to repay DMH \$8,502 since ASC billed approximately \$123,000 in excess billings paid at one-cent rate during FY 2010-11 and 2011-12. DMH management concurred with ASC's response, and indicated that DMH will work with ASC to determine the total disallowed billings.*

If ASC does not resolve their significant financial, cash flow, and program issues, DMH should place the Agency in the County's Contractor Alert Reporting Database. In addition, DMH should ensure that ASC implements all of our recommendations prior to contracting with them in the future.

Details of our review, along with recommendations for corrective action, are attached.

### **Review of Report**

We discussed the results of our review with ASC and DMH. ASC's attached response indicates they will determine the total disallowed billings for ineligible clients, reduce their FYs 2010-11 and 2011-12 Cost Reports by the questioned amounts, and will provide supporting documentation for the \$142,816 in unsupported payroll costs charged to the DMH Program. As indicated above, DMH will work with ASC management to ensure that our recommendations are implemented.

We thank ASC management and staff for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Don Chadwick at (213) 253-0301.

JN:AB:DC:EB:sk

Attachment

- c: William T Fujioka, Chief Executive Officer  
Marvin J. Southard, D.S.W., Director, Department of Mental Health  
Chess Brodnick, Co-owner and Director, ASC Treatment Group  
Michael D. Rosberg, Co-owner and Director, ASC Treatment Group  
Public Information Office  
Audit Committee

**ANNE SIPPI CLINIC TREATMENT GROUP  
DEPARTMENT OF MENTAL HEALTH  
FISCAL YEARS 2010-11 AND 2011-12**

**FINANCIAL VIABILITY**

**Objective**

Determine whether Anne Sippi Clinic Treatment Group (ASC or Agency) is financially viable and maintains sufficient working capital to provide adequate services under their Department of Mental Health (DMH) contract.

**Verification**

We interviewed Agency management and reviewed their financial statements and accounting records for Fiscal Year (FY) 2011-12.

**Results**

ASC did not maintain sufficient working capital to meet their day-to-day financial obligations. Specifically, ASC's audited financial statements as of June 30, 2013, reported an operating loss of \$367,233, negative working capital of \$659,462, and their total liabilities exceeded total assets by \$1,075,225. ASC needs to submit a business plan to improve their financial condition. If ASC does not resolve their significant financial issues, DMH should place the Agency in the County's Contractor Alert Reporting Database.

**Recommendations**

1. **ASC Treatment Group management submit a plan to the Department of Mental Health to show how they plan to improve their financial condition, including a plan to maintain sufficient working capital to meet current liabilities.**
2. **Department of Mental Health management consider placing ASC Treatment Group in the County's Contractor Alert Reporting Database.**

**BILLED SERVICES**

**Objective**

Determine whether ASC provided the services billed to DMH in accordance with their contract and related guidelines.

**Verification**

We selected 40 (2%) of the 2,471 approved Medi-Cal billings for August and September 2011, which were the most current billings available at the time of our review (May 2012). We reviewed the Assessments, Client Care Plans, and Progress Notes in the clients' charts for the selected billings. The 40 billings represent services provided to 15 clients.

**Results**

ASC billed DMH \$8,502 for unallowable or unsupported billings. Specifically, ASC billed DMH:

- \$411 (three billings) for ineligible services provided to a client. For example, ASC billed DMH for providing treatment towards a diagnosis not reimbursable by Medi-Cal. We expanded our review to include all billings associated with this client during August and September 2011 and determined that ASC overbilled an additional \$8,001. Based on the client's chart, ASC has been inappropriately billing for the client's treatment since April 2010. According to the DMH Provider's Manual, Chapter 1, Page 1-7, the primary diagnosis of an episode should be a diagnosis associated with a claim, and the diagnosis should be included for Medi-Cal. DMH audit and compliance staff will review the case to determine the entire amount of the unallowable billings dating back to April 2010.
- \$90 for one billing not supported with a Progress Note totaling \$90. According to the DMH Provider's Manual, Chapter 2, Page 2-2, each chart note must include a description of service provided, what was attempted, and/or accomplished during the contact toward the attainment of a treatment goal.

The Agency also did not always complete their client Assessments, Client Care Plans, Progress Notes, and Informed Consents in accordance with the DMH contract requirements.

**Assessments**

ASC did not complete some elements for five (33%) of the 15 Assessments in accordance with the DMH contract. Specifically:

- Two Assessments did not adequately describe the clients' symptoms and behaviors consistent with the Diagnostic and Statistical Manual of Mental Disorder (DSM), as required by the DMH Provider's Manual, Chapter 2, Page 2-7. According to the DMH Provider's Manual, the initial clinical assessment should contain a DSM diagnosis that is consistent with the presenting problems, history, mental status evaluation, and/or other assessment form. The DSM is a handbook published by the American Psychiatric Association for mental health professionals, which lists

different categories of mental disorder and the criteria for diagnosing them. The DMH contract requires the Agency to follow the DSM when diagnosing clients.

- Three Assessments did not contain a description of co-occurring (substance abuse) issues that influence the symptoms, impairments, and treatment, as required by the DMH Provider's Manual, Chapter 2, Page 2-8. According to the DMH Provider's Manual, the Annual Assessment update should include a description of the progress the client has made toward meeting goals since the last Assessment, current symptoms and problems, including a description of any co-occurring (substance abuse) and/or cultural factors that influence the symptoms, impairment, and treatment.
- Four Assessments did not contain a description of any cultural factors that influence the symptoms, impairments, and treatment, as required by the DMH Provider's Manual, Chapter 2, Page 2-8.

The number of incomplete Assessments above exceeds the total number in question because some Assessments had multiple findings.

#### Client Care Plans

ASC did not appropriately complete the Client Care Plans for 12 (80%) of the 15 Client Care Plans reviewed. Specifically:

- Eleven Client Care Plans for Targeted Case Management Services (TCMS) did not contain specific objectives meeting the criteria for SMART (specific, measurable, achievable, relevant, and time-bound). This finding was also noted during our prior monitoring review.
- One Client Care Plan did not contain an objective for TCMS.

According to the DMH Provider's Manual, Chapter 1, Page 1-11, Client Care Plans should include clinical/case management objectives that are SMART.

#### Progress Notes

ASC did not appropriately complete the Progress Notes for six (24%) of the 25 Progress Notes reviewed. Specifically, the Progress Notes did not describe what the clients or service staff attempted and/or accomplished towards the clients' goals, as required by the DMH Provider's Manual, Chapter 1, Page 1-9. According to the DMH Provider's Manual, Progress Notes are to document and support the presence of a medical necessity that each service delivered is an intervention service identified on the Client Care Plans, and should note progress the client is making toward his/her goals. This finding was also noted during our prior monitoring review.

Informed Consent Forms

ASC did not complete Informed Consent forms for all nine (100%) case files reviewed for clients who received psychotropic medication as required by the DMH Provider's Manual, Chapter 2, Page 2-11. According to the DMH Provider's Manual, a voluntary client shall be treated with psychotropic medications only after s/he has been informed by the physician of his/her right to accept or refuse such medications. Informed Consent is the client's agreement to a proposed course of treatment based on receiving clear, understandable information about the treatments' potential benefits and risks.

Recommendations**ASC Treatment Group management:**

3. **Repay the Department of Mental Health \$8,502 (\$8,001 + \$411 + \$90).**
4. **Work with the Department of Mental Health to determine the amount billed for providing services to the ineligible client since April 2010, and repay the Department of Mental Health for the unallowable billings.**
5. **Ensure that services billed are directed toward a Medi-Cal reimbursable diagnosis.**
6. **Ensure Assessments, Client Care Plans, and Progress Notes are completed in accordance with their Department of Mental Health contract.**
7. **Ensure that Informed Consents are obtained and documented in the clients' charts, before treating clients with psychotropic medication.**

**STAFFING QUALIFICATIONS****Objective**

Determine whether ASC's treatment staff had the required qualifications to provide the mental health services.

**Verification**

We reviewed the California Board of Behavioral Sciences' website and/or the personnel files for five (38%) of the 13 treatment staff, who provided services to DMH clients during May 2012.

**Results**

Each employee reviewed had the qualifications required to provide the billed services.

**Recommendation**

None.

**CASH/REVENUE****Objective**

Determine whether ASC properly recorded revenue in their financial records, deposited cash receipts into their bank accounts timely, and that bank account reconciliations were prepared and approved by Agency management.

**Verification**

We interviewed ASC personnel, and reviewed their financial records and June 2012 bank reconciliations for two bank accounts.

**Results**

ASC properly recorded revenue in their financial records, and deposited DMH payments into their bank accounts timely. However, the individuals that prepared and reviewed the bank reconciliations did not sign them as required. In addition, the individual who reviewed the reconciliation also has cash handling and other accounting responsibilities. We noted a similar finding during our prior monitoring review. According to the Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook) Section B.1.4, monthly bank reconciliations should be signed by both the preparer and the reviewer, and reconciled by someone with no cash handling, check writing, or bookkeeping functions.

**Recommendation**

8. **ASC Treatment Group management ensure that bank reconciliations are signed by the preparer and reviewed and signed by a manager that does not have cash handling responsibilities.**

**EXPENDITURES****Objective**

Determine whether ASC's Cost Allocation Plan (Plan) complied with their County contract, and if expenditures charged to the DMH Program were allowable, properly documented, and accurately billed.



**Verification**

We reviewed the Agency's Plan and their financial records for 30 (21 direct and 9 shared) non-payroll expenditures, totaling \$91,516 (\$61,844 direct and \$29,672 shared), charged to the DMH Program from July 2010 to June 2012. We also interviewed Agency personnel.

**Results**

ASC's Plan was prepared in compliance with the County contract. However, the Agency did not follow the Plan or properly allocate their shared expenditures between programs. For example, ASC inflated their allocation rates by treating the clients enrolled in multiple programs as DMH only clients. This resulted in ASC allocating \$664,669 (\$290,724 in FY 2010-11 and \$373,945 in FY 2011-12) to the DMH Program using the inflated allocation rates. For FYs 2012-13 and 2013-14, ASC revised their allocation methodology, and allocated costs among all programs. After our review, ASC re-allocated their shared costs appropriately based on direct payroll costs, and reduced their DMH Program shared expenditures by \$256,101 (\$88,736 in FY 2010-11 and \$167,365 in FY 2011-12).

We also noted weaknesses in ASC internal controls (e.g., commingling of funds, lack of supporting documentation, etc.) that resulted in DMH being charged \$60,449 (\$37,609 in FY 2010-11 and \$22,840 in FY 2011-12) in questioned costs. The A-C Handbook Section C.1.0 requires agencies to use funds for actual expenses in an economical and efficient manner and ensure they are reasonable, proper, and necessary costs of providing services and are allowable in accordance with applicable guidelines. Specifically, ASC charged DMH:

- \$10,707 (\$5,456 in FY 2010-11 and \$5,251 in FY 2011-12) to the DMH Program for non-DMH Program expenditures. After our review, ASC reduced their DMH Program indirect costs by the \$10,707 in unallowable costs.
- \$16,452 (\$12,112 in FY 2010-11 and \$4,340 in FY 2011-12) without documentation to support that the expenditures benefitted the DMH Program.
- \$20,455 (\$13,217 in FY 2010-11 and \$7,238 in FY 2011-12) in unallowable expenditures. Specifically, ASC charged \$19,422 for student loan payments for an employee who is a family member of one of the owners, \$816 for the cellular phone costs of non-DMH program employees, and \$247 for late fees. After our review, ASC reduced their DMH Program expenditures by the \$20,455 in unallowable costs.
- \$6,027 (\$1,574 in FY 2010-11 and \$4,453 in FY 2011-12) in unsupported expenditures. Specifically, ASC charged \$2,853 for gift card purchases, \$420 for a check payable to cash, and \$2,754 for legal fees without documentation to support how the expenditures benefitted the DMH Program. After our review, ASC reduced their DMH Program expenditures by \$5,186.

- \$5,250 in FY 2010-11 for 100% of the consultant fees that benefitted all Agency programs. After our review, ASC reduced their DMH Program expenditures by \$3,647.
- \$1,558 in FY 2011-12 for general liability insurance without documentation to support the allocation methodology.

After our review, ASC provided documentation to support \$13,108, and reduced their DMH Program expenditures by \$47,341.

### **Recommendations**

#### **ASC Treatment Group management:**

9. **Re-submit Fiscal Years 2010-11 and 2011-12 Department of Mental Health Cost Reports based on the revised costs, and repay the Department of Mental Health for any excess amounts received.**
10. **Ensure that shared expenditures are allocated equitably as required by the Department of Mental Health contract.**
11. **Ensure only allowable expenditures are charged to the Department of Mental Health Program.**
12. **Maintain adequate documentation to support expenditures.**

### **FIXED ASSETS AND EQUIPMENT**

#### **Objective**

Determine whether fixed assets and equipment purchased with DMH funds were used for the Program, and adequately safeguarded, and whether fixed asset depreciation charged to the DMH Program were allowable under the contract, documented properly, and billed accurately.

#### **Verification**

We interviewed Agency personnel, reviewed the Agency's fixed assets and equipment inventory list, and performed a physical inventory of one item purchased with DMH funds. We also reviewed \$1,875 in depreciation expenses charged to the DMH Program in June 2011.

#### **Results**

ASC used the fixed asset purchased with the DMH funds for the DMH Program appropriately. However, ASC did not provide adequate documentation to support the

\$1,875 in depreciation expense. Specifically, ASC's inventory listing and depreciation schedule did not include the date of purchase and acquisition costs of their fixed assets and equipment, and we could not determine if ASC charged the depreciation expenses appropriately. After our review, ASC removed the \$1,875 from their FY 2010-11 financial records.

### **Recommendation**

- 13. ASC Treatment Group management ensure that all the required information is on the fixed asset inventory listing and depreciation schedule, and depreciation expenses are supported with adequate documentation.**

## **PAYROLL AND PERSONNEL**

### **Objective**

Determine whether the ASC appropriately charged payroll costs to DMH, and maintained personnel files as required.

### **Verification**

We compared the payroll costs for ten employees, totaling \$35,594 for June 2012, to the Agency's payroll records and timecards. We also interviewed staff, and reviewed personnel files for ten employees.

### **Results**

ASC maintained their personnel files as required. However, ASC did not have adequate control over their benefit variance balances or maintain adequate internal controls over the function. Specifically, ASC did not reduce the variance hours correctly for two employees. In addition, the ASC's Administrator approves timecards, reviews the payroll register, and has access to personnel files and payroll checks. ASC also charged DMH for 100% of one shared employee's payroll costs and medical benefits, totaling \$11,107 in June 2012.

After our review, ASC reduced the DMH Program expenditures by \$14,450 in FY 2010-11 and \$15,600 in FY 2011-12 for the one shared employee's payroll costs and medical benefits. In addition, ASC removed two Directors/Co-owners' payroll costs and employee benefits totaling \$449,002 (\$229,786 in FY 2010-11 and \$219,216 in FY 2011-12) that were charged directly to the DMH Program without adequate documentation, and re-allocated \$324,978 (\$163,874 in FY 2010-11 and \$161,104 in FY 2011-12) based on the revised allocation rates.

**Recommendations**

Refer to Recommendation 9.

ASC Treatment Group management:

14. Ensure that payroll costs charged to the Department of Mental Health Program are supported.
15. Ensure that variance balances are reduced appropriately for the hours used by their employees.
16. Maintain adequate internal controls over payroll and personnel functions.

**COST REPORT****Objective**

Determine whether ASC's FY 2010-11 DMH Cost Report reconciled to their financial records.

**Verification**

We compared the Agency's FY 2010-11 DMH Cost Report to their financial records.

**Results**

ASC's FY 2010-11 DMH Cost Report exceeded their financial records by \$142,816. Agency management indicated that the variance was attributed to the amount of Adult Residential Care (ARC) Facility expenditures allocated to the DMH Program and not included in the DMH Program accounting records. According to ASC, they maintain separate accounting records to track ARC expenditures, and at the end of the year, allocate a portion of the expenditures to the DMH Program. However, ASC could not provide documentation to support the amount of ARC expenditures allocated to the DMH Program. In addition, for FY 2011-12, ASC allocated \$180,313 in ARC expenditures to the DMH Program without adequate documentation to support the amount allocated.

**Recommendation**

17. ASC Treatment Group management provide documentation to support the Adult Residential Care Facility payroll costs allocated to the DMH Program or reduce Fiscal years 2010-11 and 2011-12 Department of Mental Health Cost Reports by unsupported amounts, and repay the Department of Mental Health for any excess amounts received.



**Michael D. Rosberg, Ph.D.**  
Director

**Chess Brodnick, Ph.D.**  
Director

**Leslie Horton, MD**  
Medical director

**Nick Damian**  
Chief Operating Officer

June 12, 2014

John Naimo, Acting Auditor-Controller  
County of Los Angeles  
Department of Auditor-Controller  
500 West Temple Street, Room 525  
Los Angeles, California 90012-3873

Subject: Response to June Draft Contract Compliance Review – ASC Treatment Group (ASC)

Thank you for your draft audit report dated June 2014. ASC is dedicated to our community and the clients we serve. ASC management is committed to improving its operations, strengthening its internal controls and will take necessary corrective actions to ensure continuous services that are carried out with quality, and in compliance with the fiscal and program requirements imposed by the Los Angeles County Department of Mental Health (LACDMH) contract.

While we agree with the general assessment concerning ASC's negative Net Assets and operating losses, ASC has sufficient working capital to carry out its daily operations as supported by positive cash flow in the current fiscal year. ASC management will provide a separate detailed business plan to LACDMH for revenue enhancement and cost reductions to improve its financial conditions. The successful performance of obligations under our contract has never been financially compromised.

ASC management recognizes that there are costs still in question based on your June draft report. Therefore, ASC has dedicated efforts to present you with explanations and evidence of how ASC has arrived at its revised costs in support of certain allocated costs. ASC believes that these revisions to the allocated and direct charges resulted in costs that are now both reasonable and allowable under the terms of the contract.

ASC management recognizes that the IMD Step Down residential payroll costs allocated to LACDMH in question based on your draft report in June. Therefore, ASC has dedicated efforts to present you with explanations and evidence of how ASC has arrived at its revised financial records in support of these allocated costs as direct charges to LACDMH that are both reasonable and allowable under the terms of the contract.

Both the March and June draft audit reports stated "ASC charged LACDMH \$880,917 (\$473,024 in FY 2010-11 and \$407,892 in FY 2011-12) in questioned costs, and did not always comply with their LACDMH contract requirements." In response to your question related to these costs, ASC management has prepared attached Exhibit A, B, C and D to clarify and address your various findings.

- As indicated in your report that ASC allocated \$290,724 and \$373,945 for FY 2010-11 and FY 2011-12 respectively to its LACDMH program under the old allocation methodology. As recommended per your report, ASC has re-allocated the directors' fees to LACDMH contract as indirect costs based on the direct payroll costs for the entire agency. In addition, various other indirect costs were also adjusted in accordance with your findings and recommendations, and also based on ASC's outside consultant examination. The total expenditure reduction totaled to \$82,795.45 (Exhibit B: note "A") and \$127,871.52 (Exhibit D: note "A") for FY2011 and FY2012 respectively.
- Also reported is \$60,449 of questioned unsupported and unallowable expenditures which were charged to the LACDMH. Based on your recommendation, ASC has reduced the LACDMH Program costs by \$47,341. The remaining \$13,108 questioned costs were associated with old allocation methodology of Accounting, Legal Fees, and Directors Payroll costs. These costs have been re-allocated using new allocation methodology appropriately. Detailed responses are under the "EXPENDITURES" section of this letter.
- Another item identified in your report stated "Overstated their FY 2010-11 DMH Cost Report by \$142,816." Based on ASC review of the finding, ASC management believes that the statement is not supported. Upon ASC request, an audit worksheet named "Cost Report Issues" was provided by the auditor in support of the \$142,816 finding. Based on ASC's examination of auditor's "Cost Report Issues" worksheet (Exhibit E), ASC's originally submitted cost report support (Exhibit B: note "B"), ASC's original submitted cost report schedule LAC101, and the ASC FY 2010-11 Independent Audit Report Schedule of Functional Expenses, these documents all support a total expenditure of approximately \$1,380,577. Where the draft report mentioned that this \$142,816 was related to additional payroll costs for ASC's Institution for Mental Disease (IMD) Step-Down Program, ASC is unable to find the \$142,816 in any of the aforementioned supporting documents, including the auditor's "Cost Report Issues" worksheet. In fact, the total IMD Step-Down Supportive Services payroll allocated to ASC's LACDMH program was \$176,408.78 (consists of \$138,915.49 of salaries and \$37,493.29 of benefits). This \$176,408.78 was listed in the auditor's "Cost Report Issues" worksheet (Exhibit E: note "A"). As a result of ASC's analysis, ASC does not believe this finding is appropriately stated.

This finding is further discussed in our response to your recommendation #17 under the "Cost Report" section of your audit draft report.

### **DMH Program Review**

Auditor's draft report stated that "ASC's treatment staff had the required qualifications. However, ASC over billed DMH \$8,502 ..."

This finding is the result of the Medical billing for one client only. The initial diagnosis was taken from an assessment provided by the therapist. Unfortunately, this diagnosis differed from the diagnosis provided by our treating psychiatrist which was used going forward.

Although ASC management agrees with this finding, it does not believe that there is a payback issue since there was approximately \$123,339 in Medi-Cal claims that were paid as 1cent claims for the two fiscal years under audit. Once the \$8,502 is denied and disallowed as Medi-Cal units of service, the equivalent amount of claims

which were paid as 1cent claims will be released to backfill the repayment caused by the disallowed claims based on this finding.

ASC has responded previously to your draft report dated in February 2014 regarding the justifications of the portion of the payroll costs associated with the IMD Step Down residential services provided to LACDMH clients. In addition, ASC has implemented a time study methodology of the residential staff facility to support the amounts charged to the LACDMH Program as a portion of the overall IMD Step Down residential costs. The detailed explanations and support for our position is presented in our response to Recommendation #17.

Following are ASC's detailed responses to the auditor's findings and recommendations:

### **FINANCIAL VIABILITY**

1. ASC Treatment Group management submit a plan to the Department of Mental Health to show how they plan to improve their financial condition, including a plan to maintain sufficient working capital to meet current liabilities.

#### **Management Response:**

ASC has undertaken several steps to improve its financial condition. These steps primarily involve revenue enhancement and expense reductions, including but not limited:

- For residential services, reducing the number of clients paying only SSI and increasing the number of clients/payers able to pay a commercial day rate with retainable margins.
- Increasing the capacity of its Bakersfield facility with an effective date of July 1, 2014.
- Procured employment practices liability insurance which will limit future employment related legal costs.

In addition, ASC has engaged experienced and competent professional consultants who will ASC provide expert utilization, cost monitoring and reporting services, thus ensuring that future costs are properly supported, allocated and charged to the LACDMH contract.

As recommended, ASC management has prepared and submitted a plan to improve its financial viability to LACDMH on June 10, 2014.

2. The Department of Mental Health management monitor to ensure ASC's financial viability issues does not affect their County contract and consider placing ASC on the County's Contractor Alert Reporting Database (CARD).

#### **Management Response:**

ASC management is committed to improving its financial viability through revenue enhancement, expense reduction and intensive contract cost and compliance monitoring. ASC intends to maintain absolute transparency in its operations and work with LACDMH to alleviate the County's concerns of ASC's financial sustainability.

**BILLED SERVICES**

3. Repay the Department of Mental Health \$8,502 (\$8,412 + \$90)

Management Response:

This finding is the result of the Medical billing for one client only. The initial diagnosis was taken from an assessment provided by the therapist. Unfortunately, this diagnosis differed from the diagnosis provided by our treating psychiatrist which was used going forward.

Although ASC management agrees with this finding, it does not believe that there is a payback issue since there was approximately \$123,339 in Medi-Cal claims that were paid as 1cent claims for the two fiscal years under audit. Once the \$8,502 is denied and disallowed as Medi-Cal units of service, the equivalent amount of claims which were paid as 1cent claims will be released to backfill the repayment caused by the disallowed claims based on this finding.

ASC management accepts the finding of one billing that was not supported with a Progress Note for \$90. ASC accepts \$90 to be repayable to LACDMH.

4. Work with the Department of Mental Health to determine the amount billed for providing services to the ineligible client since April 2010, and repay the Department of Mental Health for the unallowable billings.

Management Response:

ASC has prepared and submitted a summary of billings associated with this finding and the related 1cent claims analysis to both LACDMH and the auditors previously. Based on the analysis provided, there was approximately \$123,339 in Medi-Cal claims that were paid as 1cent claims for the two fiscal years under audit. ASC management does not believe there is a payback issue as the 1cent claims exceeded the total of unallowable billings identified in this finding.

5. Ensure that services billed are directed toward a Medi-Cal reimbursable diagnosis.

Management Response:

ASC has implemented procedures that require additional review of diagnosis before claiming for Medi-Cal services to ensure the services billed are directed toward a Medi-Cal reimbursable diagnosis.

6. Ensure that Assessments, Client Care Plans, and Progress Notes are completed in accordance with their Department of Mental Health contract.

Management Response:



ASC management is still committed to further strengthen its quality controls to ensure that Assessment, Client Care Plans, and Progress Notes are completed in accordance with their Department of Mental Health contract. ASC has implemented monthly chart monitoring of Assessments, Client Care Plans, and progress notes to ensure documents are thorough and complete.

7. Ensure that informed Consents are obtained and documented in the client's charts, before treating clients with psychotropic medication.

Management Response:

ASC has obtained the informed consents for psychotropic medications and implemented monthly monitoring to ensure consents are completed and filed in the client's charts.

**CASH/REVENUE**

8. ASC Treatment Group management ensure that bank reconciliations are signed by the preparer and reviewed by a manager that does not have cash handling responsibilities.

Management Response:

ASC management has engaged an outside CPA as CFO to review its financial statements including bank reconciliations prepared by the accountant that does not have cash handling responsibilities.

**EXPENDITURES**

9. Re-submit FY2010-11 and FY2011-12 LACDMH Cost Reports based on revised costs and repay the LACDMH for any excess amounts received.

Management Response:

As indicated in your report that ASC allocated \$290,724 and \$373,945 for FY 2010-11 and FY 2011-12 respectively to its LACDMH program under the old allocation methodology. As recommended, ASC has re-allocated the directors' fees to LACDMH contract as indirect costs based on the direct payroll costs for the entire agency. In addition, various other indirect costs were also adjusted in accordance with your findings and recommendations, and also based on ASC's outside consultant examination. The total expenditure reduction totaled to \$82,795.45 (Exhibit B: note "A") and \$127,871.52 (Exhibit D: note "A") for FY2011 and FY2012 respectively.

ASC has reduced and adjusted the questioned costs of \$60,449 (\$37,609 in FY2010-11, \$22,840 in FY2011-12) accordingly based on the auditor's recommendation and the ASC examination of all indirect and direct non payroll related costs. The detailed results of the re-allocation and revisions that impacted the \$60,449 questioned costs are:

- \$10,707 (\$5,456 in FY2010-11 and \$5,251 in FY2011-12) – For FY 2010-11, the \$5,456 was never included in the originally submitted cost report, please see Exhibit B: note “C”. For FY 2011-12, only \$2,048.33 (Exhibit D: note “B”) was included in the originally submitted cost report, and ASC has reduced the \$2,048.33 to ZERO (0) (Exhibit D: note “C”) in the revised cost schedule.
- \$16,452 (\$12,112 in FY2010-11 and \$4,340 in FY2011-12) - ASC has reduced LACDMH Program costs by \$7,445. The remaining difference were associated with costs using the old allocation methodology and these costs were either removed in the Indirect Admin Costs calculations or adjusted using the new methodology in the revised cost schedules.
- \$20,455 (\$13,217 in FY2010-11 and \$7,238 in FY2011-12) - ASC has reduced these amounts in the revised cost schedules in FY2011 and FY2012.
- \$6,027 (\$1,574 in FY2010-11 and \$4,453 in FY 2011-12) - ASC has reduced LACDMH Program costs by \$5,186. The remaining difference was associated with costs using the old allocation methodology. These costs were re-allocated using the new methodology in the revised cost schedules.
- \$5,250 (FY 2010-11) - ASC has reduced LACDMH Program costs by \$3,647. The remaining difference was associated with costs using the old allocation methodology. These costs were re-allocated using the new methodology in the revised cost schedules.
- \$1,558 (FY 2011-12) - ASC has re-allocated the general liability expenditures using the new methodology in the revised cost schedules resulting in an increase of \$99.

ASC will re-submit FY 2010-11 and FY 2011-12 LACDMH cost reports based on the revised operational costs based on the auditor approved allocation methodology of direct program and indirect Administrative costs.

Below is a summary of the projected revised cost reports comparing payments received by ASC for FY2011 and FY2012:

	<u>FY2010-11</u>	<u>FY2011-12</u>
Direct Program and Indirect Admin Costs	\$1,342,983	\$1,353,774
LACDMH Payments	<u>\$1,369,800</u>	<u>\$1,369,800</u>
Amount Owed LACDMH	<u>(\$26,817)</u>	<u>(\$16,026)</u>

10. Ensure that shared expenditures are allocated equitably as required by the Department of Mental Health contract.

Management Response:

ASC management has revised its allocation methodology of indirect administrative costs, IMD Step-Down residential staff payroll costs and directors' fees as addressed in details in our response to Recommendation #14 through #16 of this letter. The indirect administrative costs were re-allocated using direct payroll costs by facility agency-wide. These costs are allowable and equitable.

11. Ensure only allowable expenditures are charged to the Department of Mental Health contract.

Management Response:

ASC management has revised its allocation methodology of allocating directors' fees based on company-wide payroll. The indirect administrative costs have been re-allocated using direct payroll costs by facility company-wide. These costs were indeed allowable and equitable.

12. Maintain adequate documentation to support expenditures.

Management Response:

ASC management has strengthened its internal controls and implemented strict policies and procedures in maintaining adequate documentation to support expenditures by engaging an outside CPA as a CFO to review and approve expenditures for the LACDMH contract. In addition, ASC also hired another CPA firm to assist in financial budgets, cost report review and compliance with LACDMH contract.

**FIXED ASSETS/EQUIPMENT**

13. Ensure that all the required information is on the fixed asset inventory listing and depreciation schedule, and depreciation expenses are supported with adequate documentation.

Management Response:

ASC has removed the \$1,875 depreciation from its expenditure report, and plans to exclude the amount from its projected revised cost report. ASC management will conduct periodic review to ensure proper supporting documentation on all future fixed asset purchases and depreciation calculations.

**PAYROLL AND PERSONNEL**

14. Ensure that payroll costs charged to the LACDMH Program are supported with timecards or time reports indicating actual hours worked each day by program or detailed and relevant time study.

Management Response:

ASC management has strengthened its internal controls environments by engaging an outside CPA as a CFO to review and approve expenditures for LACDMH contract. In addition, ASC management also hired another CPA firm to assist in financial budgets, cost allocation calculations, cost report review and

compliance with LACDMH contract. ASC also established timesheet procedures to document employees' time spent by program.

15. Ensure that variance balances are reduced appropriately for the hours used by their employees.

Management Response:

ASC management has implemented strict policies and procedures in maintaining adequate documentation for payroll costs by engaging an outside CPA as a CFO to review and approve payroll expenditures and processing for LACDMH contract.

16. Maintain adequate internal controls over payroll and personnel functions.

Management Response:

ASC management has strengthened its internal controls and implemented strict policies and procedures in maintaining adequate documentations over all payroll and personnel functions. ASC management has engaged an outside CPA as a CFO to review and approve all payroll expenditures for LACDMH contract. In addition, ASC management has committed to conduct periodic reviews of all payroll and personnel functions and timely correct any deviations.

**COST REPORT**

17. ASC Treatment Group management provide documentation to support the Adult Residential Care Facility payroll costs or reduce FY2010-11 and FY2011-12 LACDMH cost reports by unsupported amounts, and repay the LACDMH for any excess amounts received.

Management Response:

The audit draft report stated "Overstated their FY 2010-11 DMH Cost Report by \$142,816." It also questioned the costs of \$142,816 based on lack of support. Based on ASC review of the finding, ASC management believes that the auditor's finding is not supported.

Upon ASC request, an audit worksheet named "Cost Report Issues" was provided by the auditor in support of the \$142,816 finding. Based on ASC's examination of auditor's "Cost Report Issues" worksheet (Exhibit E), ASC's originally submitted cost report support (Exhibit B: note "B"), ASC's original submitted cost report schedule LAC101, and the ASC FY 2010-11 Independent Audit Report Schedule of Functional Expenses, these documents all support a total expenditure of approximately \$1,380,577. Where the draft report mentioned that this \$142,816 was related to additional payroll costs for ASC's Institution for Mental Disease (IMD) Step-Down Program, ASC is unable to find the \$142,816 in any of the aforementioned supporting documents, including the auditor's "Cost Report Issues" worksheet. In fact, the total IMD Step-Down Supportive Services payroll allocated to ASC's LACDMH program was \$176,408.78 (consists of \$138,915.49 of salaries and \$37,493.29 of benefits). This \$176,408.78 was listed in the auditor's "Cost Report Issues" worksheet (Exhibit E: note "A"). As a result of ASC's analysis, ASC does not believe this finding is appropriately stated and there is no over claiming of cost in its originally submitted cost report due to discrepancies between its financial records and Cost Report.

ASC management does not agree with the auditor's assessment that the IMD Step-Down program payroll costs are not supported and there were no timecards or time study for such expenditures. ASC management further believes these costs are supported, valid, reasonable and allowable costs that should not be identified as questioned costs. Therefore, it should not be forced to reduce the FY 2010-11 and FY 2011-12 cost report amounts, and nor is there any excess amount to be paid back to LACDMH.

The IMD Step-Down program payroll costs are allocated by patient census. The Adult Residential Care Facility Staff time were charged to the LACDMH contract based on actual staff time records and time study performed by ASC contract administrator.

The IMD Step-Down program payroll costs were initially questioned by the auditor due to their belief that these costs are not allowable based on, we quote your February draft report "we noted that ASC charged the DMH Program \$319,266 (\$147,380 in FY 2010-11 and \$171,886 in FY 2011-12) for unallowable payroll costs as their direct payroll costs. Specifically, ASC allocated the payroll costs of non-DMH Program staff that provide direct care at their State funded residential care facility. However, the residential facility staff did not provide any mental health services to qualify their payroll costs as the DMH Program cost. We recommend ASC to reduce the DMH Program costs by unallowable cost, and re-allocate their shared costs, and reduce FY 2010-11 and FY 2011-12 Cost Reports by overcharged amounts."

ASC does not believe that the auditor has requested any support including census data, staff time records or any time study to support the calculation of the IMD Step-Down program payroll costs. ASC will be happy to provide its census and time study documents for review when requested.

We appreciate the opportunity to respond to the draft report, and we thank the audit staff for their work on this matter.

Sincerely,



Michael Rosberg, Ph.D.  
Director